DOCUMENT RESUME

ED 372 692 HE 027 577

TITLE	Improving the Financial Aid Delivery Process and the Federal Family Education Loan Program: Program Recommendations.
INSTITUTION	Coalition for Student Loan Reform, Washington, DC.
PUB DATE	Jul 94
NOTE	56p.
PUB TYPE	Reports - Evaluative/Feasibility (142)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	*Change Strategies; *Delivery Systems; Educational Finance; Federal Government; Federal Programs; Financial Aid Applicants; Higher Education; Policy Formation; Program Administration; Program Costs; Program Design; Program Effectiveness; *Program Improvement; *Student Financial Aid; Student Loan Programs
IDENTIFIERS	*Family Education Loan Program

ABSTRACT

This publication presents a set of eight recommended reforms and improvements for delivering financial aid to postsecondary students especially the Federal Family Education Loan Program (FFELP). The recommendations are: (1) make applying for student aid simpler for students; (2) assure the continued availability of a dependable, reliable source of loan funds; (3) ensure on-time delivery of funds to students; (4) streamline the loan servicing process for students and schools; (5) reduce overall program costs to students and institutions through increased operating efficiency, while keeping net cost to the federal government the same or lower; (6) enhance control over the student loan program at the campus level; (7) simplify and standardize program administration while retaining the flexibility to offer institutions and their students customized solutions to their specific needs; (8) strengthen program integrity and reward superior performance. For each recommendation there are specific recommended actions with detailed explanation, rationale, regulatory and statutory references, and places where the recommendation is or has been implemented. An appendix contains guidelines for responsible marketing by FFELP participants, and lists of task force members and members of the Coalition for Student Loan Reform. (Author/JB)

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ED 372 692

IMPROVING THE FINANCIAL AID DELIVERY PROCESS AND THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

PROGRAM RECOMMENDATIONS

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COALITION FOR STUDENT LOAN REFORM

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The Coalition for Student Loan Reform (CSLR) is a nationwide group of state and nonprofit guarantors and secondary markets committed to serving postsecondary students and institutions and improving the financial aid delivery process. It was formed in April 1993 to offer a reform plan to serve as an alternative to direct government lending and explain the merits of current federal guaranteed loan programs. The organization continues to work with the higher education and public policy communities on a broad range of issues facing students and colleges.

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IMPROVING THE FINANCIAL AID DELIVERY PROCESS AND THE FEDERAL FAMILY EDUCATION LOAN PROGRAM

PROGRAM RECOMMENDATIONS

C S L R

COALITION FOR STUDENT LOAN REFORM

JULY 1994

The Coalition for Student Loan Reform (CSLR) is a nationwide group of state and nonprofit guarantors and secondary markets currently serving students and postsecondary institutions in the federal guaranteed student loan program. The Coalition believes the delivery process for federal financial aid, including guaranteed student loans, can be made better. To that end, CSLR has prepared this set of recommendations to simplify and improve the process. Support for these recommendations comes from every segment of the guaranteed student loan community. Implementation of these proposals will offer a higher level of service to students and schools, a more efficient, cost effective system of delivering federal student aid and a greater degree of institutional flexibility in the administration of federal financial aid programs.

CSLR wishes to extend its thanks and appreciation to the financial aid officers and student loan professionals of the Program Improvements Task Force, who dedicated their time and expertise in developing these recommendations.

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INTRODUCTION

A college education was once a luxury reserved primarily for the privileged. The establishment of state and Land Grant institutions and the G.I. Bill began opening doors of opportunity to many first-generation college students. And the landmark Higher Education Act of 1965 vastly expanded the availability of federal student grants and loans to millions more Americans. One of the best investments the federal government has ever made, the Act has helped millions of people get a postsecondary education leading to fuller and more productive lives.

Started almost 30 years ago, federal student aid programs have been a creative and successful public-private partnership for addressing the financial needs of American students. Unlike most other nations, the American system of postsecondary education features a wide variety of institutions -- from large state universities to community colleges, from small private liberal arts colleges to for-profit trade and technical schools.

This pluralistic system has been built around a respect for academic freedom, institutional autonomy, and an aversion to excessive control from Washington over subject content and how courses are taught. By delivering financial aid to students, federal programs have given them significant opportunity to attend the type of institution that best meets their needs, while protecting them (and schools) from excessive government intrusion or political agendas.

Federal loan programs are now more important than ever. As the cost of a higher education continues to rise at a faster rate than inflation, more families need financial help to make going to college possible. The level of federal grant and work-study assistance has not kept pace, further increasing reliance on loans. And a college education takes on added significance as the income gap between the college and the non-college educated has widened.

Today, federally guaranteed student loans are the single largest source of student aid. Since 1965, the program -- now called the Federal Family Education Loan Program (FFELP) -- has provided more than $160 billion in loans to students and families. Last year alone, the FFELP helped 5.8 million students with $18 billion in loans.

Under the FFELP, private lenders provide the loan capital and state or nonprofit organizations guarantee the bank loans on behalf of the government and administer the program at the local level. Nearly two decades ago, Congress also encouraged states to designate nonprofit secondary markets to purchase loans from banks to ensure that sufficient capital was available to make new loans.

In the 1990s, a paramount issue for higher education is the enormous financial commitment from students, families, schools, and state and federal governments. This accentuates the valuable role the private sector should play in leveraging substantial resources from these varied sources to pay for college, and helping assure that these dollars are effectively and efficiently spent.

A major challenge is to improve the process of applying for financial aid, delivering it, and collecting student loans. As part of the reauthorization of the Higher Education Act of 1992, Congress made significant improvements to the FFELP, which are beginning to yield positive results. In fact, the Act directs the Secretary of Education to simplify all aspects of the loan process and to seek recommendations from the student aid community, on an annual basis, for ways to simplify and standardize the administration of federal education loan programs.

In 1993, President Clinton proposed to change fundamentally how student loans are delivered. He recommended scrapping the current system, involving banks and nonprofit guarantors and secondary markets, and replacing it with direct government lending in which the federal government provides the loan capital, schools administer the program, and the government and its federal contractors service and collect the loans.

Congress rejected the President's call for full conversion to direct government lending, and instead agreed to a compromise plan that reduced subsidies and administrative payments under the existing program and sought to partially phase-in direct lending. The new program will be formally evaluated against the goals set for it and the track record of the FFELP. The compromise produced significant financial savings for students and taxpayers.

Beginning at five percent of loan volume in the 1994-1995 school year, direct lending can grow to 60 percent in the fifth year of the program (1998-1999). If additional schools wish to participate, congressionally set loan-volume targets can be exceeded, but schools cannot be forced to participate.

Beginning in July 1994, 104 campuses will take part (either partially or completely) in direct government lending. But for the next several years, the majority of students and institutions will continue to be served by the FFELP.

As the federal guaranteed student loan program continues to serve as the largest source of student financial aid, the need to continually improve it is particularly important. The viability and continued success of the FFELP will be especially critical during the early years of the newly created, and yet untested, direct loan program. The guaranteed loan program will also continue to play a vital role in ensuring that a dependable source of student loan capital remains available to students, families, and schools.

Executive Summary

When the Coalition for Student Loan Reform came together in 1993 to offer a student loan reform plan as a cost-effective alternative to President Clinton's direct lending proposal, it presented a package that produced real cost savings for students and the American taxpayer. Many of its recommendations were incorporated into the compromise legislation that Congress approved nearly a year ago.

As students, families, and schools continue to depend on an efficient student loan program, CSLR believes they should also benefit from continual improvements in the program and the financial aid delivery process. To help build a national consensus for improvements, in early 1994 CSLR created a special task force to develop a new package of reforms.

Task force members included individuals with extensive program knowledge. Comprised of financial aid professionals from colleges, CSLR-member organizations, and lenders, the task force reached out to the higher education community seeking the ideas of other FFELP participants, college officials, student groups, and higher education associations.

The task force recommendations will help:

- make applying for student aid simpler for students
- assure the continued availability of a dependable, reliable source of loan funds
- ensure on-time delivery of funds to students
- streamline the loan servicing process for students and schools
- reduce overall program costs to students and institutions through increased operating efficiency, while keeping net costs to the federal government the same or lower
- enhance control over the student loan program at the campus level
- simplify and standardize program administration while retaining the flexibility to offer institutions and their students customized solutions to their specific needs
- strengthen program integrity and reward superior performance

Not all of the ideas contained in CSLR's plan are new. Many of them have been proposed before by schools, guarantors, secondary markets, and lenders, as well as the associations that represent them. Some of these initiatives, in fact, have been field tested and are being implemented by several education loan organizations. The CSLR plan, however, compiles the best of these recommendations, bringing them together for the first time.

These recommendations reflect on-going efforts to improve the current Federal Family Education Loan Program (FFELP). In particular, the guaranteed student loan community, with the cooperation of the Department of Education, has made substantial progress recently in the area of standardization. Much of this important work has been carried out through the Ad-Hoc Standardization Committee, including adoption of a common student loan application and promissory note now in use nationwide. Additional common forms have followed and work is well underway to standardize electronic data linkages between all participants.

One guide for these recommendations, and for potential future initiatives as well, is the report to Congress on July 23, 1993 by The Advisory Committee on Student Financial Assistance. CSLR will work to implement the Advisory Committee's recommendations for streamlining and simplifying the FFELP and fully integrating the loan program into the Title IV student aid delivery system.

The CSLR plan relies principally on improvements that organizations can make on their own, and in cooperation with one another, under current law and regulations. It focuses on improvements that can be made proactively with clear benefits for students and schools in the short—and long—run. The Coalition also hopes this effort will stimulate further improvements.

Congress made substantial changes in student aid laws in each of the last two years -- during the reauthorization of the Higher Education Act in 1992 and last year's enactment of an expanded direct lending program. Consequently, CSLR is not recommending additional legislative changes this year. Some of the CSLR reform measures, however, will require positive action by the U.S. Department of Education.

Much of the CSLR proposal is highly technical. To the casual observer and public, the full significance of the recommendations may not be immediately apparent. But the improvements are very meaningful and significant to the professionals -- student financial aid officers, CSLR organizations, and the guaranteed loan community -- who work with student aid programs on a daily basis.

CSLR is also providing suggested guidelines for FFELP program participants to follow as they market loans and services to students and schools. These principles would ensure the highest level of responsive service and ensure that the interests of students come first and that the vital role played by financial aid administrators is recognized.

The CSLR improvement plan has been endorsed by the leading national associations representing organizations involved in the FFELP:

- National Council of Higher Education Loan Programs (NCHELP),
- Education Finance Council (EFC),
- Consumer Bankers Association (CBA),
- Student Loan Servicing Alliance (SLSA), and
- Coalition for Higher Education Assistance Organizations (COHEAO).

Many individual education finance organizations have endorsed the plan as well. The guaranteed student loan community is currently reviewing the recommendations to determine how their organizations can implement them in the most timely and efficient manner.

CSLR views these recommendations as an important next step in improving the FFELP and a catalyst for further reform. Because the sole mission of CSLR member organizations is to serve students and schools, the Coalition's mission is broad. In addition to these specific changes, CSLR will continue to speak out about many issues facing American higher education.

CSLR believes that providing access to postsecondary education must include increased availability of grants, not loans, especially for lower-income students. For so many citizens, the absence of an adequate, or fully funded, Pell Grant has resulted in an imbalance between grants and loans in individual student financial aid packages. This means that even the poorest student may leave a postsecondary institution under a heavy burden of debt. With other student-aid advocates, CSLR will continue to support fully funding the existing Pell Grant program, as well as work-study and other campus-based grant aid.

The Coalition will also continue to encourage greater student and family savings as part of a sensible, long-term college financing plan. Borrowing for postsecondary education should not be viewed as a first step in assembling the financial resources needed to pay tuition and other bills. When borrowing for school is necessary, CSLR encourages that such financial choices be responsible ones. To ensure that students and families borrow wisely, CSLR members actively support borrower education programs to help them make prudent decisions.

The following is a brief explanation of each of the CSLR proposals:

A. Making application for student aid simpler and assuring on-time delivery of funds.

These recommendations seek to reduce the paperwork necessary for students and institutions to secure federal financial assistance and speed the delivery of loan funds. They would allow colleges to take advantage of available technology to reduce information-gathering tasks in the business and financial aid offices and reduce costs, staff time, and paperwork.

- Students would complete a single application each year for all federal aid, including loans, via the Free Application for Federal Student Aid (FAFSA).

- Students who have received a loan would be able to avoid burdensome paperwork in future years by reapplying through an open-ended promissory note. (Several "checks and balances" would remain in place to deter over borrowing.)

- Faster delivery of loans would be possible through the optional use of electronic delivery of funds directly to student accounts. (Schools that do not wish to participate in the electronic funds transfer process could reduce delays through the adoption of a "master check" or single, regular disbursement of loan proceeds for multiple students at that institution.)

- Students, families, high school guidance counselors, and others could receive information about all federal financial aid programs through an on-line computer information service funded by private-sector participants.

B. Relieving institutions with sound program management from undue regulatory burdens.

Rather than applying federal regulations and oversight requirements uniformly, regardless of the performance record of the postsecondary institution involved or its capacity to administer Title IV student aid programs, colleges with proven track records in student aid management should be rewarded with more flexible federal rules and regulations and less burdensome reporting requirements.

- The Department of Education should exercise its existing authority to expand the Quality Assurance Program (QAP), an established mechanism to exempt postsecondary institutions that meet high management standards from strict verification requirements. CSLR has identified 14 regulatory burdens facing many institutions. (Others should be added to an expanded list of QAP exemptions.) The changes include:

  -- Eliminate the 30-day delay for disbursing the first semester's proceeds of FFELP loans to first-time borrowers.

  -- Allow institutions to be exempt from the requirement to multiply disburse loans for one-term enrollment periods.

  -- Exempt institutions from TRIAD regulatory review requirements.

C. Simplifying the exchange of all financial aid data.

By its very nature, the student financial aid delivery process is complex. The reporting and monitoring of individual student aid packages and individual loan accounts requires extensive communication and data-sharing among schools, the guaranteed loan community, and students. All participants in financial aid programs could benefit from more accurate, complete, and timely exchange of information.

- A single, common electronic data interchange should be created for the various sources of data that now exist in federal student aid programs. One common electronic format should be established for transmission of data. (This would help student borrowers, for example, know and understand their total loan indebtedness and better track the status of their financial obligations.)

- Efficiency should be improved through further standardization of the variety of forms, electronic formats, policies, and procedures to make administration of the program easier for postsecondary institutions and FFELP participants.

D. Streamlining the loan servicing process for students.

Students should be served by the same FFELP participants (one guarantor, lender and holder) throughout their schooling, ensuring that they need only make loan payments to a single student loan servicing organization. Arrangements should be made between and among participants to ensure that the transfer of ownership of loans still allows students to deal with one servicing entity for all of their repayment needs.

E. Easing repayment for students.

A number of improvements can be made to the current set of available repayment options for students without forcing them into lengthy repayment terms or long negative amortization periods in exchange for smaller monthly repayment amounts.

- The "deferment process" -- the mechanism by which a student's loan repayment obligation is deferred while he or she is in school -- should be made automatic, rather than the current process, which is dominated by paperwork and duplication and subject to delay. More comprehensive, understandable loan-counseling and debt-management information services should be available to students and families.

- Income-sensitive repayment should be an option under FFELP, allowing students moving into the workforce in lower-paying jobs to keep loan payments in line with monthly income. A lender or holder could offer the borrower an income-sensitive option based on student-reported income, sparing the student or the student's employer any involvement with the Internal Revenue Service.

- Loans of the same type should be combined into a single payment, and borrowers should be offered the repayment option of monthly automatic deduction from their bank accounts.

- Student borrowers with loans outstanding under both the FFELP and FDSLP should be allowed to combine all of their education loans into a single, new loan for simplified repayment purposes (i.e. loan consolidation) under either the existing FFELP or the new FDSLP.

F. Assuring greater program integrity.

All Title IV program participants should improve gatekeeping in the federal student financial aid programs, particularly in the expanded PLUS loan program for parents.

- Appropriately targeted federal standards and gatekeeping efforts on the part of all FFELP participants should be the first, not the last, line of protection for students against abuse in the aid programs. The Department of Education should review its regulations to better focus new requirements on institutions evidencing signs of low-program quality or poor financial management.

- All FFELP participants should counsel borrowers to use the PLUS loan program only to the extent necessary to meet legitimate educational costs. Credit analysis beyond what is minimally required should be undertaken in many cases and borrowers should be counseled as to the full consequences of taking out the loan.

- Postsecondary institutions participating in the direct loan program should be allowed to place PLUS loan volume under either the FDSLP or the FFELP to give schools the maximum flexibility for assuring quality service and effective program oversight. Given the unique requirements of the PLUS program, including credit analysis, schools may benefit from providing these loans through private PLUS lenders.

G. Assuring students have equal access to student loan benefits under law.

When Congress created the FDSLP, it mandated that the new program have "the same terms, conditions and benefits and [that loans] be available in the same amounts" as the FFELP. But in promulgating regulations, the Department of Education has created significant differences between the two programs involving the application process, certain repayment terms, loan consolidation, the capitalization of interest, and other issues. The Department should review its regulations to reflect congressional intent that students enjoy the same benefits under both the FFELP and FDSLP.

PROGRAM RECOMMENDATIONS

A. Making Application For Student Aid Simpler And Assuring On-Time Delivery Of Funds

Recommendation A-1

Utilize one application for all federal aid via the Free Application for Federal Student Aid (FAFSA). A student's signature on the loan promissory note would suffice as an agreement to its terms, conditions and obligations to repay.

Use of the FAFSA as the single Title IV aid application reduces the need for the student to provide duplicative data and leads to completion of the loan application process earlier than under the current process. The student benefits from simplicity and the receipt of loan funds on a more timely basis.

EXPLANATION:

Under this simplified approach, students begin the loan process as they begin the grant process--by completing the FAFSA. The Central Processor (CP) processes the loan data and shares it electronically.

Institutions should be allowed to direct the CP to transmit the data to the guarantor(s) and/or lender(s). This, in essence, creates an electronic loan record simultaneously for the student borrower at the school, guarantor, and lender.

Historical data would be available through the Department's National Student Loan Data System (NSLDS), once operational. This allows the school and the guarantor to confirm prior borrowing information and virtually eliminates the need for a Financial Aid Transcript.

A separate promissory note would be developed. It will reflect a limited amount of borrower demographic information, most of which will be pre-printed.

Following confirmation with the student concerning appropriate loan amounts and selection of a lender, the institution forwards to the guarantor or lender certification of the borrower's eligibility. An institution would have the option of sending the promissory note to the student with the award letter to expedite processing. A guarantee, including disbursement information, is then issued.

Concurrent with or prior to this process, the student and his selected lender complete the simplified promissory note. This note authorizes the lender to disburse to the borrower's institution the amount certified by the institution and guaranteed by the guarantor. The lender disburses the funds following receipt of the guarantee and disbursement information from the guarantor.

RATIONALE:

This process benefits the student because it is simpler, consolidated, less confusing and leads to completion of the application process earlier. The student benefits further through early identification and correction of errors and earlier loan processing and awarding. In the end, the student benefits from simplicity and the receipt of funding on a more timely basis.
By using the FAFSA as the loan application and NSLDS to confirm historical data, the student makes one application for financial aid which is collected, edited and processed in the same manner as all other financial aid information. The need to collect redundant information is minimized.

This approach is consistent with current school preferences and processes. The financial aid office benefits by receiving all financial aid application data at one time in an electronic format. This should reduce costs, staff time and paperwork by establishing the electronic file in the beginning instead of the current secondary process for federal loan application processing. It also allows schools to process loan requests during the less hectic months preceding the start of a school term.

This streamlined approach, however, should be accompanied by appropriate debt management counseling to deter unnecessary borrowing (see recommendation E-2).

REGULATORY/STATUTORY REFERENCE:

This proposal is in accord with the simplification initiatives endorsed by Congress, and in particular HEA Section 432(l)(2) which provides that standardization requirements developed by the Secretary "shall be designed to minimize administrative costs and burdens involved in the exchanges of data to and from borrowers..."

IMPLEMENTATION:

For the 1994-95 academic year:

The NCHELP Program Operations Committee is developing a Common Promissory Note. This note is being developed to complement use of the FAFSA as the loan application.

ED approval has been requested to allow transition from the Common Application/Promissory Note process currently in place to one using the FAFSA and a common promissory note. The Ad Hoc Standardization Committee has verbally approved this transition approach and it is consistent with institutional goals.

While use of the FAFSA and a stand-alone promissory note without NSLDS is an improved process for the student and school, NSLDS will provide additional checks and balances and information not otherwise available.

For the 1995-96 academic year:

The FAFSA as the loan application, along with the Common Promissory Note, should be the only approved ED process beginning with the 1995-96 academic year. The optimal operation of this approach is dependent on the functionality of the NSLDS.

Recommendation A-2

Provide students with automatic loan renewal for subsequent years of schooling through an open-ended promissory note. The student's renewal FAFSA application would be used each year to confirm the student's continued eligibility.

Students are currently benefiting from the simplicity associated with the recent implementation of the renewal FAFSA. An open-ended (renewal) promissory note is a well-deserved recognition that the majority of student loan applicants are repeat borrowers. This simplified process is a time-saver for them. It alleviates the delay and frustration associated with completion of a promissory note each year and eases the administrative burden on institutions.

EXPLANATION:

Using the open-ended promissory note approach, the borrower will sign a single promissory note allowing for the disbursement of first-year and subsequent guaranteed loan amounts. The student will sign this note once. Disbursements will then occur after:

1) the student has confirmed with the school an interest in borrowing,

2) the school has certified a disbursement schedule and amount with the guarantor, and

3) the guarantor has notified the lender of the guarantee.

Borrowers will be required in subsequent years to reconfirm with the financial aid office an interest in borrowing. They will not, however, be required to sign additional promissory notes.

Renewal data would be available through the Department's National Student Loan Data System (NSLDS), once operational. This allows the school, guarantor and lender to confirm prior borrowing information.

RATIONALE:

The use of an open-ended multi-year promissory note for continuing borrowers recognizes that a majority of students are repeat borrowers. Completion of the promissory note each year is redundant and unnecessary.

This change will save students a great deal of time and reduce their confusion and frustration. This process will result in more timely delivery of funds to students and less administrative burden for the financial aid and business offices.

This approach will not allow a student to borrow above approved maximums. "Checks and balances" will occur at the school, the guarantor, the lender and the NSLDS to guard against overborrowing.

Appropriate debt-management counseling should be provided which could include an annual "student loan transcript" electronically generated and updated each award year to inform the student of his/her accumulated student loan debt and likely monthly repayment obligation (see recommendation E-2).

REGULATORY/STATUTORY REFERENCE:

This approach is consistent with HEA Section 485C where Congress simplifies the loan process by requiring "to the extent practicable, and with the cooperation of the borrower" that all loans made to a borrower under the same section of Part B as one and encourages the development of processes and procedures to "ensure that a borrower only have one lender...." Furthermore, HEA Section 435(e) permits a line of credit promissory note under which the lender agrees to make, in addition to the initial loan, additional loans in subsequent years.

IMPLEMENTATION:

In conjunction with the recommendations in A-1, regarding the use of the FAFSA as the loan application, the recommendation to create a renewal (open-ended) promissory note will provide a nearly "seamless" and logical next step.

NCHELP is developing a common (open-ended) promissory note and policies and procedures to guide schools and students through transfers and other school changes.

Recommendation A-3

Institutions should be provided the option of having loan funds disbursed via Electronic Funds Transfer (EFT) or "Master Check".

Use of EFT or "Master Check" will speed up the delivery of funds to the student and spare institutions the complexity of processing thousands of checks.

EXPLANATION:

EFT is a technology widely available today. This method of disbursing funds has proven effective at reducing paper work and expediting the delivery of funds to students. Lenders and guarantors should utilize this technology for institutions that request disbursement of student loan funds via EFT.

Schools who do not elect to use EFT, should have the option of a "Master Check" to allow for a gross disbursal of funds. By having a lender, or an escrow agent, provide a single check for multiple borrowers with a detailed roster of borrowers, the school can minimize delays and credit the appropriate account from a master listing.

Lenders should be encouraged to use an "escrow agent" that provides EFT and "Master Check" services for many lenders. This further streamlines the delivery of funds to the institution.

RATIONALE:

EFT and "Master Check" offer many advantages. They speed up the delivery of funds to the student and eliminate the complexity for the institution associated with processing thousands of checks. The electronic record made automatically of an EFT transaction is also a more reliable form of record-keeping and minimizes manual data entry.

REGULATORY/STATUTORY REFERENCE:

HEA Section 428(b)(1)(N), and 428(b)(8), provides for disbursement by check "or other means" and the new Common Loan Application approved by the Department provides an EFT authorization statement. A Department of Education directive, dated March 29, 1994, sanctions use of "Master Check".

IMPLEMENTATION:

The community of guarantors and lenders should adopt common standards, in conjunction with ED, for EFT and "Master Check" to enhance their usefulness.

In particular, a notice provided by the institution to the student that acknowledges the crediting of a student's account should be permissible in lieu of a borrower endorsement.

Guarantors and lenders should be encouraged to make both EFT and "Master Check" available, depending on institutional preference and circumstances.

Recommendation A-4

Explore the feasibility of creating "student aid informational bulletin boards" using the major on-line computer information services as a further means to convey helpful information to students and families.

On-line computer bulletin boards are being used with increasing frequency as a quick and easy means to obtain information on a variety of topics. Providing important and easy-to-understand information about student financial aid and student loan options through this means can be a useful tool to help clarify and simplify the application process for prospective students and families.

EXPLANATION:

Information communicated through on-line computer bulletin boards has the potential of instantly reaching an audience numbering in the millions and can be updated quickly and accessed at the precise moment that someone needs it. Creation of student aid information bulletin boards would involve a coordinated approach to dispense important information about student financial assistance to students, families, guidance counselors and institutions that subscribe or have access to the major on-line commercial services (e.g. America on Line, Prodigy, CompuServe and Internet).

The format should include, but not necessarily be limited to:

- How to apply for student financial assistance
- Basic eligibility criteria
- Types of federal programs available
- Loan limits and terms
- Repayment options
- Basic student loan debt counseling materials (see recommendation E-2)
- Commonly asked questions and answers about student financial aid

RATIONALE:

Creation of an on-line computer bulletin board of the nature outlined above would be a valued additional means of communicating helpful information to students and families. This could be of particular benefit to prospective students who fall into the nontraditional age category and for whom such information may not be readily available elsewhere.

REGULATORY/STATUTORY REFERENCES:

None. This proposal can be self-implementing by the guaranteed student loan community.

IMPLEMENTATION:

NCHELP should assign the task of conducting a feasibility analysis to an appropriate committee or subcommittee with a charge to finalize its work within the next six months.

In addition to the student aid informational bulletin board, NCHELP should explore the feasibility of expanding information services to postsecondary institutions through available on-line systems, particularly through the NASFAA-sponsored PENMAIL system and Internet. This could be an especially effective means to provide updates on FFELP standardization efforts, the status of new industry-wide products or services and updates on regulatory developments.

B. Relieving Institutions With Sound Program Management From Undue Regulatory Burdens

Recommendation B-1

Exempt institutions meeting "Quality Assurance Program" standards from various regulations that are an inappropriate burden for high performance institutions.

Rewarding institutions with a proven track record of sound program management with relief from certain regulatory burdens would greatly reduce program complexity, help control college administrative costs and assure the timely delivery of funds to students while having no adverse impact on program integrity.

EXPLANATION:

Currently all institutions participating in the Federal Family Education Loan Program (FFELP), regardless of their performance, must comply with numerous regulations intended to curb fraud, abuse, and loan defaults. This puts an undue burden and cost on institutions with a proven track record of sound program management.

The Department of Education's Quality Assurance Program (QAP) is already in place at a number of institutions. Eligibility for QAP is limited to institutions that demonstrate sound program management through consistently low default rates and virtually error-free records, that participate in all Title IV programs and that have electronic processing capabilities. Today, institutions in QAP are exempt only from certain requirements related to verification.

The Department of Education should exercise the authority already provided to it in the 1992 Higher Education Amendments to expand the Quality Assurance Program and exempt qualifying institutions from the following regulatory burdens:

1. Eliminate the 30-day delay for disbursing the first semester's proceeds of FFELP to first time borrowers;
2. Allow institutions to develop their own procedures for carrying out loan counseling provisions currently mandated in entrance and exit interview requirements;
3. Allow institutions the option of complying with federal student aid audits every three years instead of every two, and exempt them from penalties for de minimis audit violations;

4. Allow institutions to be exempt from certain late disbursement regulations;
5. Allow institutions to be exempt from the requirement to multiply disburse loans for one-term enrollment periods;
6. Allow institutions the option of requiring borrowing from preferred lender lists (participating lenders should agree to purchase and/or consolidate previous loans issued by a non-preferred lender);
7. Exempt institutions from TRIAD regulatory review requirements;
8. Allow institutions to request the re-issuance of a check returned to the lender due to lack of a borrower's endorsement to avoid the delays and costs associated with re-initiating the loan process where the student has remained eligible for the loan;
9. Allow institutions to adjust subsidized and unsubsidized loan amounts without requiring recertification of eligibility.

In addition, the following incentives should be made available to those institutions meeting the highest standards of integrity, defined as participation in QAP for two audit periods or six years:

1. Allow institutions to exceed annual loan limits for FFELP borrowers (e.g., borrowers in accelerated programs or whose "family contribution" circumstances change suddenly) as long as aggregate limits are not affected and borrowing does not exceed twice the annual limit for that student's grade level.
2. Allow institutions to exceed annual limits for the campus-based SEOG and Perkins programs, as long as aggregate limits are not affected.
3. Permit institutions the authority to make revised Pell payments without the requirement of obtaining another Student Aid Report.
4. Exempt institutions from the need to secure a Financial Aid Transcript in cases where they deem it unnecessary (e.g., students attending summer school or students who obtained college course credits during high school).
5. Award supplemental campus-based aid allocations to those institutions.

RATIONALE:

High performance institutions should be allowed flexibility to establish their own procedures for maintaining the integrity of their financial aid programs. This rewards excellence, reduces program complexity and college administrative costs and enhances the service delivery for students. These incentives should serve only to strengthen the overall integrity of FFELP.

REGULATORY/STATUTORY REFERENCE:

See 34 CFR 668.51(c). Also, HEA Section 487A authorizes the Secretary to exempt institutions participating in QAP from certain requirements within the regulations and statute.

IMPLEMENTATION:

As reflected in a recent Department of Education *IQAP Update* (Issue 50, April 1, 1994), the Quality Assurance Program is seeking both additional program participants as well as new ideas for expanding the concepts inherent in QAP. ED and QAP officials should be approached with the above list of expanded exemptions for implementation to the extent feasible under current statutory authority.

C. Simplifying The Exchange Of All Financial Aid Data

Recommendation C-1

Create common electronic data interchange guidelines to connect all FFELP participants and allow students one point of contact for accessing all pertinent Title IV aid information.

All participants in the Title IV aid programs, students and institutions especially, could benefit from more accurate, complete and timely information regarding student financial aid accounts nationwide. Student borrowers, for example, should have the ability to query one point of contact to receive loan balances, payment histories, payment dates, and to access information on deferments, forbearances and various forgiveness options.

EXPLANATION:

Students, institutions, state and federal governments and FFELP participants have common data requirements. The several data sources currently providing this information should be networked through a common interface.

Access to data available through such means as EDExpress, NSLDS, FISAP, a universal student status data base (e.g. National Student Loan Clearinghouse) and the Central Processor should be achieved through one point of contact. All data transmission should occur using a common format. Data should be recorded and accessible by student (not loan) account.

This electronic data interchange should be designed to accommodate the full financial aid continuum; FFELP, FDSLP, campus-based programs, Pell Grants, state programs and institutional funding.

RATIONALE:

The delivery, reporting and monitoring of financial aid requires extensive communication and data sharing between numerous entities. This complex communication can be the source of delays in the distribution of aid to students. Importantly, the lack of a single source of borrower information could result in awards errors, servicing problems or defaults.

The creation of common electronic data interchange guidelines would reduce the confusion and delays currently experienced by borrowers, institutions, and FFELP participants. Application processing, revision, data correction and reporting could be accomplished quickly through one data network. Universal electronic data interchange guidelines must be developed to support this need.

The primary beneficiary of this interchange would be the borrower. Timely availability of accurate information would enable borrowers to be more informed about the extent of their loan indebtedness and to track the status of their financial obligations more carefully. Excessive borrowing, needless delinquencies and defaults could be averted.

The institution would also benefit from electronic data interchange guidelines. In particular, the ability to readily access and update certain student data held by the guarantor would facilitate the timely correction of data and minimize any processing delays. This would also greatly reduce staff time, the benefits of which would be two-fold: more time to spend with students resolving other issues, and administrative cost reductions at a time when institutions are trying to minimize costs to control tuition increases.

The federal government, in particular the U.S. Department of Education, would also benefit greatly from common electronic data interchange guidelines. This would foster processing efficiencies which would lead to cost reductions. Improved efficiency, coordination of data between FFELP, FDSLP, and all Title IV aid programs, reduced staff requirements, and heightened program integrity would assist ED in achieving its goals while increasing the Department's performance ability. Furthermore, default prevention would be enhanced by access to a wider range of current and historical data.

REGULATORY/STATUTORY REFERENCE:

HEA Section 485B established the National Student Loan Data System. Under this section, the Secretary was directed to ensure that data relating to any institution is readily accessible. The statute also required the Secretary to integrate the NSLDS with the needs analysis process and other data sources containing information on participation in Title IV programs.

IMPLEMENTATION:

Use of electronic processing should be encouraged and used to the maximum extent possible by all FFELP participants. It serves to reduce turnaround time and minimizes cumbersome paper flow and handling requirements. Electronic processing can also improve accountability and efficient record-keeping.

Common electronic data interchange guidelines are vital to achieving maximum advantage from electronic processing. The guaranteed student loan community must support -- financially, politically and organizationally -- the establishment of common electronic data interchange guidelines. A consortium of government, industry and institutional personnel should convene to decide on the best mechanism to move this concept forward.

In the area of enrollment verification, collaborative efforts are underway with the creation of the National Student Loan Clearinghouse. Further dialogue should be pursued to ensure that a truly universal student status enrollment data base is the end result.

ED and FFELP participants must establish standard data formats, common data elements and a common language by which all data will be transferred and accessed by student account. One goal should be the full integration of FFELP into the Title IV aid delivery system. The specific steps to achieving these objectives are:

1. Implementation of the National Student Loan Data System and a hoped-for successor embodying all Title IV aid data;
2. Industry collaboration to develop interface software and processes to network the electronic processing services and data bases currently available or under development, including a universal student status enrollment data base (e.g. National Student Loan Clearinghouse);
3. Industry collaboration toward developing common data elements, common data format and standard electronic processes;
4. Department of Education involvement and commitment to common data exchange, including implementation of ANSI standards;
5. Universal access to standard application, origination and needs analysis software; and
6. Support by all participants of a fully automated financial aid process.

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Recommendation C-2

Further standardize forms, electronic formats, processes, policies and procedures.

Standardization is a means to simplify the delivery of aid to students, improve service, assure consistent quality and reduce complexity, especially for the institution. Common data interchange guidelines, forms, policies and procedures among all FFELP participants would promote program integrity and provide more effective administrative standards and requirements.

EXPLANATION:

§432 (l) (1) of the Higher Education Act of 1965, as amended, provides that the Secretary shall prescribe standardized forms and procedures regarding:

A.	Origination of loans;	F.	Servicing;
B.	Electronic funds transfer;	G.	Claims filing;
C.	Guaranty of loans;	H.	Borrower status change;
D.	Deferments;	I.	Cures.
E.	Forbearance;		

Much of this important work has been carried out through the Ad-Hoc Standardization Committee, chaired by Dr. A. Dallas Martin, Jr., President of the National Association of Student Financial Aid Administrators. Thus, the Committee, in cooperation with NCHELP and several other program participants, has achieved the following standardization initiatives:

- Common Application and Promissory Note;
- Common deferment and forbearance forms;
- 7-month Rule;
- Common PLUS Application and Promissory Note;
- Common Consolidation Application and Promissory Note; and
- ANSI (American National Standard Institute) Electronic Data Interchange (EDI) formats for electronic fund transfers and student loan records.

Importantly, standardization must focus on serving the needs of the borrower throughout the life of the loan.

The process of standardization should not come, however, at the expense of institutional flexibility. Through available and evolving technologies, optional data elements, definitions and processes could be added on at an institutional level to allow individual institutions the flexibility to augment and enhance their financial aid services.

RATIONALE:

Standardization will result in greater efficiencies in program administration, reduced expenses through automation, wider and more timely data exchange and improved quality and service.

REGULATORY/STATUTORY REFERENCE:

See HEA Section 432(l)(1) as described above.

IMPLEMENTATION:

Consistent with achievements to date in the standardization of forms and the directives mandated by Congress in the 1992 reauthorization of the Higher Education Act, standardization of electronic data interchange, policies and procedures must be a priority of FFELP participants.

To further the initiatives already begun, the following must occur:

- Identification and implementation of common data elements and data exchange;
- Development of universally available origination software;
- Standardization of EFT/Master Check policies and procedures;
- Standardization of procedures for application processing, loan approval and fund disbursement;
- Standardization of policies for application processing, loan limits, fund disbursements, etc.;
- Standardization of deferment and forbearance policies and procedures; and
- Standardization of claim filing forms, policies and procedures.

To achieve these essential reforms, a "Standardization Summit" should be convened during July, 1994 consisting of representatives from major student loan organizations and trade groups. The goal of the Summit would be to address comprehensively the above-mentioned standardization requirements with the intent to accomplish as much reform as possible under the context of current regulatory pronouncements. However, for those items requiring ED approval, etc., the Summit would prepare a proposal for delivery to the Ad-Hoc Standardization Committee by Fall, 1994.

D. Streamlining The Loan Servicing Process For Students

Recommendation D-1

All FFELP participants should work to ensure that students are served by only "one guarantor, one lender, one holder" throughout their schooling. [In the case of transfer students and other similar circumstances, the guarantors involved will assure a "split holder/guarantee" situation is averted.]

Under the "one guarantor, one lender, one holder" principle, students benefit from dealing with the same entities throughout the loan process and can be assured of one single payment and the lowest possible payment when the repayment period begins.

EXPLANATION:

The 1992 Reauthorization of the Higher Education Act encouraged guarantors to allow for one guarantor, one lender, one holder for FFELP loans whenever practicable.

All data necessary to achieve this goal is first available at the institution when an application is processed for a FFELP loan. The data is either on the application or on the school's data base.

When students indicate on the FAFSA that they are interested in a loan, the Central Processor (CP) should check the NSLDS for prior loans. If prior loans are identified, the CP will indicate the amount, lender and guarantor on the record transmitted to the school.

The school should process the loan application through the one lender/guarantor/holder combination requested by the student when a prior loan exists.

As an additional check, the guarantor should search its records for a previous guaranteed loan when a prior loan is indicated. When the lender is different on two applications, the guarantor should contact the student and the institution and effect a change to ensure the same lender/guarantor/holder combination on all loans.

In cases involving transfer students or similar circumstances where the guarantor identifies loans for the same borrower at different holders or guarantors, the guarantor will effectuate a transfer of loans so that all the loans for the same borrower have the same holder/guarantor.

RATIONALE:

The approach to placing student borrowers with the same guarantor/lender/holder for all the loans received throughout their schooling will assure students a single payment and the lowest payment possible when the repayment period begins.

Additional savings will be realized by the student borrowers since they will not be required to consolidate their loans to achieve a single payment. Students also benefit from dealing with the same entities throughout the loan process.

This approach further supports the ability for institutions and students to choose the lender/guarantor combination that best meets their needs.

REGULATORY/STATUTORY REFERENCE:

Section 485C(b) provides, "to the extent practicable, and with the cooperation of the borrower," that the guarantor ensure that the borrower have one lender, one holder and one guarantor and one servicer with which to maintain contact. Similar rules are in effect for several states, including Illinois, Pennsylvania, and New York.

IMPLEMENTATION:

Guarantors should work with schools and lenders to develop and adopt common policies for the implementation of the "one guarantor, one lender, one holder" principle described above.

Guarantors should facilitate the transfer of loans or guarantees to assure that all loans for a given borrower reside with the same guarantor and holder.

Recommendation D-2

Lenders and subsequent holders should strive to assure that a student is provided "life-of-the-loan" servicing by the same entity, especially to ensure continuity of service during repayment.

Under the "life-of-the-loan" servicing principle, students will be assured of the convenience of dealing with the same entity for all their repayment servicing needs.

EXPLANATION:

The transfer of loans to a secondary market is commonplace in all kinds of consumer loan transactions, and it has played an important role in assuring the continued availability of student loan funds.

Continuity of service is important to a student, and can best be preserved when the transfer of ownership of the loan is "seamless" to the student. Lenders and secondary markets, as many do today, should make it their practice to assure that all loans for a given student remain serviced by the same entity, when the student borrower is in repayment, both before and after the transfer of ownership.

RATIONALE:

With the student population always in transition--changing schools or addresses and relocating for employment reasons--it is important for students to be assured of having one entity to work with in repaying their student loans.

REGULATORY/STATUTORY REFERENCE:

HEA Section 485C(b) references "one servicer" for the life of the loan, "to the extent practicable."

IMPLEMENTATION:

Lenders and secondary markets need to establish, as a standard part of their loan sale agreements and forward purchase commitments, that the servicing of all the loans of a particular student be maintained by the same entity, when the student borrower is in repayment, both before and after the transfer of ownership. The onus will especially be on the subsequent holder to assure it has a business relationship with all the entities servicing the repayment loans it intends to acquire.

Obvious exceptions, such as the discontinuation of a student loan servicer, a borrower's request or other just causes, would be situations when a transfer between servicers would be justified.

E. Easing Repayment For Students

Recommendation E-1

Provide for simplification and standardization of in-school deferment processing.

Students can benefit from in-school deferments, without delay, by seeking two changes to current processing procedures--eliminate the need for borrowers to request the deferment and standardize the processing of "bridge deferments."

EXPLANATION:

Student deferments should be granted when the lender learns that a borrower is enrolled without the need for the borrower to initiate a deferment request. The FFELP regulations published on December 18, 1992 require a borrower to request a deferment. The authorized use of verbal requests has allowed lenders to process deferments more quickly and as a result, better serve borrowers.

To build further upon this concept, it is suggested that the requirement for the borrower to "request in-school deferments" be eliminated. When the lender learns, through the enrollment verification process, or through contact initiated by the institution or guarantor, that the borrower is enrolled, the lender should be permitted to grant the deferment automatically.

To be certain the borrower is informed of the loan status, a letter should be sent which advises the borrower of the deferment on the loan. The borrower would be advised that s/he has the option to i) cancel the deferment; or ii) continue to make full or partial payments during the deferment period. In the case of unsubsidized deferments, the borrower would be advised the interest will be capitalized as provided for in the promissory note unless the borrower makes the interest payments.

The "bridge deferment," often referred to as the summer bridge, includes the summer periods and semester breaks during a period of authorized deferment. These periods of technical "non-enrollment" should be uniformly treated by lenders and servicers as periods automatically covered under the authorized in-school deferment.

RATIONALE:

With relief from the requirement for the borrower to initiate the deferment request, delays are minimized and the borrower is given automatic benefit for the deferment. Borrowers often assume that there is a linkage between their school and the lender and thus believe they are not required to contact the lender to request the deferment.

Standardization of the "bridge deferment" will provide for consistent treatment and also minimize borrower confusion surrounding periods of non-enrollment.

REGULATORY/STATUTORY REFERENCE:

HEA Section 432(1)(2) provides that the standardization requirements developed by the Secretary "shall be designed to minimize administrative costs and burdens involved in the exchanges of data to and from borrowers..."

IMPLEMENTATION:

ED should be encouraged to interpret the current regulations to permit lenders to grant in-school deferments, including deferments for the summer and other "bridge periods," without the borrower's request. The notification sent by the lender to the borrower would serve as the "request" as required under §682.210(a)(4) of the December, 1992 regulations.

The NCHELP Program Regulations Committee should be requested to develop, for community endorsement, a common policy for lender and servicer processing of the "bridge deferment."

Recommendation E-2

Provide student loan debt management counseling to assure students receive full and complete information on the repayment options available to them so they can choose the option that best fits their circumstances.

With the number of repayment options currently available, students can benefit from clear and concise materials and expert personal assistance to help them choose the option that best fits their needs.

EXPLANATION:

Typical sample repayment schedules for each of the following repayment options permitted under HEA Sections 428(b)(1)(E) and (M) and 428 (c)(3) need to be developed:

1. Fixed-amount repayment schedule involving the same monthly installment amount;
2. Graduated repayment schedule involving an increased monthly installment amount over the repayment term;
3. Income-sensitive repayment schedule involving a monthly installment amount that is adjusted annually based on the borrower's income; and
4. Extended repayment schedule involving an initial financial hardship (mandatory and discretionary) forbearance.

These schedules should be supplemented by easy to understand information on available deferments and loan cancellation and forgiveness programs.

To assist the borrower in selecting the repayment option that is best for them, a comparison should be provided of the monthly payment amount and total interest cost to be borne under each option. In the interest of full disclosure, these comparisons should be based on actual dollars, and a "net present value" calculation.

The typical repayment schedules and deferment/loan forgiveness information would be made part of the following material:

1. Disclosure statements provided to borrowers at the time of the actual disbursement of the loan;
2. Entrance and exit counseling material provided by schools to students; and
3. "Out-of-School" Notices sent to students by guarantors and/or lenders.

Personalized data and repayment schedules in the form of annual "student loan transcripts" could be electonically generated and provided to students each award year.

In addition, a standard repayment disclosure statement form will be developed for lenders to provide the borrower with:

1. An actual fixed-amount repayment schedule and a graduated repayment schedule based on the borrower's outstanding loan balance; and
2. A mechanism for applying for an income-sensitive repayment schedule or financial hardship forbearance (mandatory or discretionary) if the borrower cannot repay the loan according to the fixed or graduated repayment schedule initially disclosed.

Although a borrower will not be requested to sign and return the new repayment disclosure statement form, s/he will be encouraged to do so if s/he wants an income-sensitive repayment schedule or an initial financial hardship forbearance.

RATIONALE:

Industry-developed, typical repayment schedules; a standard repayment disclosure statement form; and defined processes for providing information on all options (including available deferments and loan forgiveness programs) to borrowers will ensure consistency of information and will ensure that borrowers are aware of all repayment options. In turn, this should help prevent defaults.

REGULATORY/STATUTORY REFERENCE:

See 34 CFR 682.604 (f) and (g) and HEA Section 433 (a) and (b).

IMPLEMENTATION:

The NCHELP Program Operations Committee should develop typical repayment schedules and a standard repayment disclosure statement to coincide with the anticipated effective date of the new repayment and forbearance regulations. The Department needs to allow for sufficient flexibility in the design of graduated and income sensitive repayment schedules and permit borrowers to provide self-certifying information in applying for an income sensitive repayment schedule or a mandatory financial hardship forbearance.

Help should also be just a toll-free phone call away. Student loan debt management counseling programs established by many lenders and holders today should be made a standard offering.

Recommendation E-3

Use of forbearances by lenders and holders for those students in need of short-term relief from their repayment obligations should be encouraged as a cost effective alternative for students.

Students in need of short-term relief from their repayment obligation can benefit from entering into a period(s) of forbearance with their lender and be spared an income-contingent repayment that could be far more costly in the long-term.

EXPLANATION:

Lenders can provide borrowers with financial hardship forbearances (either at the discretion of the lender or as mandated by HEA Section 428(c)(3)). An extended repayment schedule can be developed for borrowers that involves an initial forbearance whereby the borrower makes interest-only payments or smaller payments of principal and interest than would normally be required to repay the loan within the required repayment terms.

These forbearances can be renewed and adjusted to keep students at a level of repayment that meets their needs, and may also minimize negative amortization and the skyrocketing interest costs that can result.

The repayment disclosure statement form should be revised to incorporate self-certifying information that borrowers can provide to apply for a forbearance if they cannot repay the loan according to the fixed or graduated repayment schedule initially disclosed.

RATIONALE:

The use of forbearances will be encouraged to reduce the potential of defaults if a borrower cannot meet regularly scheduled payments, and does not meet eligibility criteria for an authorized deferment. To aid a student in obtaining this relief, a fixed or graduated repayment schedule should be disclosed emphasizing the right of the student borrower to hardship forbearance which can result in suspended payment of principal and interest while extending the repayment schedule.

REGULATORY/STATUTORY REFERENCE:

See 34 CFR 682.211 (b) and (g) and HEA Section 428(c)(3).

IMPLEMENTATION:

ED should permit the borrower to self-certify income and monthly Title IV loan payments to qualify for the mandatory financial hardship forbearance.

Also, the NCHELP Program Operations Committee should develop a standard repayment disclosure statement that can act as a forbearance request if the borrower cannot repay the loan according to the fixed or graduated repayment schedule initially disclosed on the repayment disclosure statement (See also previous recommendation E-2).

Recommendation E-4

Establish an income-sensitive repayment option under FFELP to maximize a student's repayment flexibility, and especially to offer students a means of reducing their monthly obligations in years of lower income.

Under an income-sensitive repayment option, students moving into the workforce -- especially in pursuit of low-paying public service professions -- have the ability to keep student loan payments in line with the income they initially earn.

EXPLANATION:

Income-sensitive repayment allows a borrower to make payments based on a percentage of income for a period of up to three years during repayment. This period is akin to an "administrative forebearance." After such time, the borrower repays the remaining balance under a fixed-amount or graduated repayment schedule.

For up to three years of repayment:

- The borrower pays a set percentage of gross income.
- The minimum percentage of gross income acceptable is established by the Secretary. The borrower may pay the minimum percentage or choose to pay a higher percentage.
- Borrower gross income is established by the borrower certifying his/her most recent monthly gross income from all sources. The borrower recertifies gross income annually, and adjustments are made to the income-sensitive payment amount as necessary.
- The payment amount during the three years may be less than accrued interest. If so, capitalization of accrued interest is on an annual basis.

Following the period of "income-sensitive" repayment:

- The borrower may choose either a fixed-amount or graduated repayment schedule for repaying the remaining balance.
- Unless a shorter term is necessary to comply with regulatory restrictions applicable to fixed-amount or graduated repayment, the remaining balance of the loan is repaid over a term of up to ten years.

Other conditions:

- Periods of deferment are not counted as part of the three years of income-sensitive repayment, nor as part of the fixed-amount or graduated repayment term that follows.
- The borrower may select an income-sensitive repayment schedule when repayment begins or at any time during the first three years of repayment; however, the period during which income-sensitive payments may be made shall not exceed three years from the date the borrower enters repayment, exclusive of any periods of deferment granted to the borrower.

RATIONALE:

Under the plan explained above, a lender or holder could offer the borrower a repayment schedule based on the student's income level and maintain a reasonable cost to the student and government while minimizing negative amortization and saving the student tremendous interest costs associated with stretching payments out for longer periods.

This approach is based on self-reported borrower income and, therefore, would spare the student, and the student's employer, any involvement with the IRS to verify income data or collect the loan.

This plan can greatly relieve the program of loan defaults that stem purely from a student's inability to pay.

REGULATORY/STATUTORY REFERENCE:

See 34 CFR 682.209 (h) (5) and HEA 428 (b) (7).

IMPLEMENTATION:

The plan explained above was recently presented to ED by the "FFELP Repayment Options Workgroup" in response to a recent NPRM. ED should be encouraged to rule upon this plan favorably.

ED should permit the borrower to self-certify income to simplify the process. It is important to note that this process is sufficient for the calculation of need upon which grants and loans are first awarded.

Recommendation E-5

All student loans of one type should be combined for a given student so the student can make <u>one</u> low payment each month.

The benefit of combining all loans of one type is clear -- students have to make only one low payment each month.

EXPLANATION:

HEA Section 428(b)(1)(L) requires students utilizing a standard repayment schedule to make a minimum monthly payment towards repaying their loans. For repeat borrowers, this minimum would apply to each loan if held separately.

Loans of one type bearing the same interest rate and terms can, and should, be combined without the borrower needing to initiate the process. This automatic combination of loans would enable a student borrower to make just one low payment each month.

RATIONALE:

Combining all loans of one type is beneficial to student borrowers who, then, only have to make one low payment each month on the entire student loan debt outstanding.

REGULATORY/STATUTORY REFERENCE:

HEA Section 485C requires lenders to treat all loans made to a borrower under the same section of part B as one loan subject to a single bill "to the extent practicable, and with the cooperation of the borrower."

IMPLEMENTATION:

Servicers should make the combining of loans of one type a standard practice for all student borrowers.

Additionally, this should be an option available at the request of parent PLUS borrowers, though recognizing that a parent may want to keep the loans for each family member separate.

Recommendation E-6

Lenders should offer student borrowers the option of having payments automatically deducted from their bank accounts on the same day each month.

Students never have to worry about missing or being late with a payment when they elect to have their monthly student loan payment automatically deducted from their bank accounts.

EXPLANATION:

This procedure under which the monthly payment is deducted from the borrower's account on the same day each month is known as "direct debit" or automated clearinghouse (ACH). This has been a successful option for many students, and all lenders and secondary markets should offer this means of automatic repayment.

Furthermore, when payments are made consistently on time as a result of a student electing this option, it saves the lender the processing time and expense of notifying borrowers about payments due and posting late payments. In recognition of this fact, several lenders and secondary markets have instituted rebates or other incentives to reward students who have consistently repaid their loans on time.

RATIONALE:

This option encourages on-time repayment and is hassle-free for both the student and the lender. It eliminates the monthly writing and sending of checks and prevents delinquency.

REGULATORY/STATUTORY REFERENCE:

Not addressed.

IMPLEMENTATION:

ACH is widely used for a variety of financial transactions. All lenders should offer this option to their student loan borrowers and should consider instituting incentives in connection with this option as a reward for consistent on-time repayment.

Recommendation E-7

Allow students the flexibility to consolidate their loans under FDSLP or FFELP if they are holding loans under both programs.

Given that students are establishing a relationship with an entity for up to 30 years under Loan Consolidation, it should be the students' choice whether to consolidate loans under either FDSLP or FFELP if holding loans under both programs.

EXPLANATION:

Students with FDSLP and FFELP loans are currently only permitted to seek a Consolidation Loan under the Federal Direct Student Loan Program. Under FFELP, students wishing to consolidate loans are required to seek a Consolidation Loan from their current holders and if a Consolidation Loan is unavailable from their holders, the student may seek a Consolidation Loan from another FFELP lender. This same standard should be available for students consolidating FDSLP and FFELP loans.

Moreover, the benefits and the conditions under which consolidation can occur, should be identical under either program so as to afford maximum flexibility to the student. No fees should be charged to students for consolidating their loans.

RATIONALE:

This reform will simplify consolidation for students, provide for student choice in the selection of loan features which best meet their needs, and provide choice of their Consolidation Loan lender.

Given that students are establishing a relationship with an entity which can last up to thirty years, they should be provided an opportunity to select their student loan partner. Geographic location and other banking relationships that the student may have with the lender (such as private student loans or other consumer loans) are factors which may influence this decision.

REGULATORY/STATUTORY REFERENCE:

See Section 428C(b)(5).

IMPLEMENTATION:

Congress should be encouraged to reinstate the HEA 1992 language which identified an FDSLP loan as a loan eligible for Loan Consolidation under the FFELP Consolidation Program (§428C). The common Loan Consolidation application and program materials need to be modified to include all loan programs eligible for consolidation under FFELP and FDSLP. In addition, exit counseling materials need to be modified to provide this information to students.

ED should be discouraged from allowing students to consolidate early before they have completed their education (graduate or professional programs included) and understand the full extent of their loan obligations and have weighed the options for repayment. However, if ED allows for this under FDSLP consolidation, the same early consolidation option should be allowed under FFELP for consistency. Suitable debt management counseling will be imperative.

F. Asssuring Greater Program Integrity

Recommendation F-1

All Title IV program participants should take appropriate steps to improve gatekeeping in the federal student financial aid programs, especially under the expanded PLUS program.

The large increases in loan volume experienced in recent years, especially in the PLUS program, makes the further curtailment of program abuses through effective gatekeeping all the more essential.

EXPLANATION:

One of the primary concerns before, during, and since the reauthorization of the Higher Education Act in 1992 has been the very serious and continuing problem of fraud, abuse, and loan defaults. This is a costly problem for the borrower and the taxpayer.

Although Congress recently provided, under HEA Section 490(a)(15), new authority to the Department of Education (ED) to control the eligibility of institutions to participate in Title IV programs, some observers believe that ED is not adequately addressing the potential in both the FFEL and FDSL programs for continued abuse of Title IV programs by some institutions.

While ED is developing institutional participation standards for FDSLP, it should take this opportunity to review standards applicable to FFELP. Institutional eligibility standards should be identical for both programs.

An area of particular concern relates to the recent expansion of the PLUS Program. Under the 1992 legislation, parent borrowers with "no adverse credit history" may borrow up to the full cost of attendance of their student minus other assistance s/he receives.

All program participants should counsel borrowers to use the PLUS loan program only to the extent necessary to meet legitimate educational costs. In addition to minimum credit worthiness standards reflected in the statute, additional "debt-to-income" and "credit score" analysis should be undertaken and borrowers should be counseled as to the full consequences of taking out the loan, including the life-of-the-loan interest cost and probability of default. To the extent such analyses suggests a high probability of default, consideration should be given to not making the loan. Special care in administering the PLUS program needs to reflect the fact that, in the vast majority of cases, the income of the parent borrower, unlike the student, will not be positively affected by the education supported with the loan.

The greatest challenge for participants in the Title IV program is the issue of gatekeeping. The 1992 legislation and interim Department regulations are viewed by many in the higher education community as a misguided effort to effectively address this serious problem. ED should review its regulations to better focus new requirements on institutions evidencing signs of low program quality or poor financial management. This effort should be complemented with increased efforts by lenders, guarantors and others to identify program abuses, report them to ED and other appropriate authorities and to assure that the loan programs are not misused to facilitate attendance of students at institutions where the educational quality is highly suspect.

RATIONALE:

Appropriately targeted federal standards and gatekeeping efforts should be the first, not the last, line of protection for students against abuse in the Title IV programs. The public-private partnership inherent in the FFELP should complement federal efforts so as to maximize positive educational outcomes for students and minimize federal losses due to defaults and program abuse.

REGULATORY/STATUTORY REFERENCE:

Section 490 (a)(15) reads: "The institution acknowledges the authority of the Secretary, guaranty agencies, lenders...to share with each other any information pertaining to the institution's eligibility to participate in programs under this title or any information on fraud and abuse."

IMPLEMENTATION:

The gatekeeping function must be performed by the Department of Education in FDSLP and shared by the Department, lenders, guarantors and secondary markets in FFELP. All policies and procedures must be oriented to ensure that this crucial function operates to the best advantage of students.

In assuming greater responsibility for program administration, federal standards should be viewed as a minimum with promotion of the students' interests guiding the details of program administration. The approach to loan counseling, origination, servicing and collection as well as audits and program reviews of institutions must all reflect this same objective of enhanced gatekeeping. The abuse of Title IV programs by institutions not placing the student's interest in securing a quality education first and foremost cannot be tolerated.

Particular attention should be focused on excessive, needless and uninformed borrowing under the PLUS program through special counseling of borrowers by institutions and the student lending community and enhanced oversight by ED of PLUS lending practices.

Additionally, the impact of present policy which allows virtually unlimited borrowing under the PLUS program merits careful study and review by the Congress, ED and the higher education community.

Recommendation F-2

Allow FDSLP institutions the option of originating PLUS loans under either FDSLP or FFELP to maximize flexibility and effective program oversight.

Given the unique requirements of the PLUS program, FDSLP institutions should have the choice of both FFELP and FDSLP for the origination of loans.

EXPLANATION:

The PLUS program is unique. It is a loan to parents, not to students, and it is often made to families with little or no need. A separate application/promissory note is required. The PLUS program also contains requirements for determination of credit worthiness which do not exist in any other Title IV program.

Determination of a parent's credit worthiness can be difficult and time-consuming. Parent PLUS applicants are often not aware of negative items in their credit report which prevent them from qualifying for a PLUS loan. Removal of these exceptions can be complex and sensitive. The national processor(s) that will be charged with determining credit worthiness for FDSLP PLUS borrowers could have difficulty giving applicants personal attention. Many parents could be denied PLUS loans when they would have qualified, but for the personalized attention available from private lenders. For other parents, counseling from an experienced private lender, which could include an analysis of a family's "debt-to-income" or "credit score," might appropriately deter excessive borrowing.

Parents can also carry multiple loans as a result of having more than one child attending school at the same time. This means that a parent could have loans under both FDSLP and FFELP.

An important feature of this proposal is that institutions can exercise the option in line with what best meets their needs. If the institution determines that their students and parents can be served better by private PLUS lenders, this option is available.

RATIONALE:

The option to originate PLUS loans under FDSLP or FFELP gives FDSLP institutions maximum flexibility for assuring quality service and effective program oversight.

REGULATORY/STATUTORY REFERENCE:

See HEA Section 454(a)(1).

IMPLEMENTATION:

FDSLP institutions, in specifying the percentage of FDSLP volume it will undertake, should be allowed the opportunity to designate that all PLUS loans be administered under FFELP. ED should be encouraged to publicize this particular option.

G. Assuring Students Have Equal Access To Student Loan Benefits Under Law

Recommendation G-1

The Department of Education's regulations, policies and procedures need to reflect Congressional intent that students have access to the same benefits whether served by FFELP or FDSLP.

Students should have equal access to benefits under Title IV programs.

EXPLANATION:

The Department of Education has promulgated policies for the Federal Direct Student Loan Program (FDSLP) that in some instances differ from those available under the Federal Family Education Loan Program (FFELP). The Student Loan Reform Act of 1993 requires that FDSLP loans have "the same terms, conditions and benefits and be available in the same amounts" as loans made to borrowers in the FFELP program, except as specified in the authorizing statutes [Section 455(a)(1)].

RATIONALE:

Benefits should be the same for students served by FFELP and FDSLP. Differences between the two programs can create borrower confusion and complicate the assessment of the direct loan program by institutions considering participation in it. Examples of areas of differences include the application process, adverse credit determinations under the Parent Loan Program for Undergraduate Students (PLUS), certain repayment terms, medical deferment policies, loan consolidation and the capitalization of interest.

REGULATORY/STATUTORY REFERENCE:

See HEA Section 455(a)(1) stated above.

IMPLEMENTATION:

The Department should review its regulations, policies and procedures in both the FFELP and FDSLP and identify differences between the two programs and make appropriate revisions, so as to reflect the intent of Congress to keep student benefits the same under both programs.

APPENDIX

GUIDELINES FOR RESPONSIBLE MARKETING BY FFELP PARTICIPANTS

The following are principles which the Coalition for Student Loan Reform believes typifies the high level of responsive service most student loan organizations currently provide and which should guide all marketing of loans and services in the Federal Family Education Loan Program (FFELP) .

1. Program participants should place the interests of students first by:

   - implementing all means available to simplify access to loans by eligible students;
   - maintaining toll-free telephone numbers or other free and easily accessible means for borrowers and institutions to secure services and accurate and timely information regarding their student loan accounts;
   - dedicating ample resources to effective problem resolution, including staffing customer service offices with highly-trained personnel and empowering them with the sufficient authority to resolve issues quickly;
   - not marketing loans or loan guarantees to borrowers where pre-existing relationships exist with another lender and/or guarantor;
   - not marketing loans or loan guarantees to students where the lender will be unable to meet the full financial needs of the student for their entire educational program;
   - participating in all of the Title IV, Part B, loan programs, so as to avoid split accounts;
   - taking responsibility to assure the highest quality service for the life of the loan;
   - assuring students have access to accurate and complete information on loan repayment options and opportunities for deferment and forbearances;
   - working with guarantors that can assure that pre-claim and supplemental pre-claims assistance are performed effectively; and
   - operating their loan programs in a manner to promote attendance at institutions where the educational benefit is commensurate with the borrower's investment.

2. The central role of the institution's financial aid administrator should be recognized.

   - Program participants should not knowingly engage in marketing or other activities legitimately opposed by the financial aid administrator of a college or university.
   - Marketing Representatives should not visit a campus where any official of the institution has requested they not visit.

3. Program participants should comply with the Higher Education Act and program regulations and provide the highest quality products and services.

- Investments in technologies necessary to assure innovation and improvement in services should be made.
- All lenders and guarantors should offer Electronic Funds Transfer (EFT) and "Master Check" to all institutions.
- Program participants should utilize technologies that automate and streamline the student status confirmation process.
- Representations made on availability of services and processing characteristics (such as turn around time on borrower applications) should be truthful and adhered to even in peak processing times.
- Trade associations representing program participants should encourage their members to adhere to the highest quality of service.
- Program participants will report instances of program violations, fraud and other abuses to appropriate Federal, State or agency authorities.

In establishing the aforementioned practices, CSLR acknowledges the positive role that competition between and among student loan organizations often plays in assuring a high level of responsiveness, innovation and, ironically, cooperation in serving the education loan financing needs of students and families.

CSLR Program Improvements Task Force

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